



Department of the Treasury  
Internal Revenue Service  
OGDEN, UT 84201

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For assistance you may call us at:  
1-800-829-0115

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## YOUR 2004 FEDERAL TAX DEPOSIT REQUIREMENTS

This letter explains your Form 941 federal tax deposit requirements for 2004. No response is needed, but please review the following information carefully.

**Monthly Schedule Depositor** - In October, we reviewed the Forms 941 you filed for the quarters ending September 30, 2002, December 31, 2002, March 31, 2003, and June 30, 2003, to determine your deposit requirements for 2004. You are a monthly depositor because your total tax liability for the four quarters was \$50,000 or less. This means that when you pay wages for any one month, your deposit is due by the 15th day of the following month.

**\$100,000 Next-Day Deposit Rule** - If your accumulated Form 941 tax liability reaches \$100,000 or more at any time during a calendar month, your deposit is due by the next banking day. After that, you must make your deposits semi-weekly rather than monthly. Semi-weekly means that if you pay wages on Wednesday, Thursday, or Friday, your deposit is due by the following Wednesday. If you pay wages on Saturday, Sunday, Monday, or Tuesday, your deposit is due by the following Friday. If your accumulated Form 941 tax liability reaches \$100,000 or more at any time during a semi-weekly period, your deposit is due the next banking day.

**\$2,500 Rule** - If your total tax liability for any quarter is less than \$2,500, you can pay the amount when you file your Form 941 instead of making deposits. If you're not sure your total tax liability for the quarter will be less than \$2,500, deposit using the monthly rules so you won't be subject to failure to deposit penalties.

It is your responsibility to determine which deposit schedule you should follow. Please contact us if you have problems making your first deposit as a result of your 2004 deposit schedule.

## ELECTRONIC DEPOSIT REQUIREMENT

You must make your deposits electronically in 2004 if your total tax deposits during the 2002 calendar year exceeded \$200,000, or if you were required to use the Electronic Federal Tax Payment System (EFTPS) in 2003.

To get more information or to enroll in EFTPS, call 1-800-555-4477 or 1-800-945-8400. You can also visit the EFTPS Web Site at [www.eftps.gov](http://www.eftps.gov).

**Helpful Hint:** For faster service, try calling us any day except Monday when our call volumes are highest.

## Deposit Requirements for 2004 Employment Taxes

There are two deposit schedules--monthly or semiweekly--for determining when you deposit social security and Medicare taxes and withheld income tax. These schedules tell you when a deposit is due after a tax liability arises (e.g., when you have a payday). Prior to the beginning of each calendar year, you must determine which of the two deposit schedules you are required to use. The deposit schedule you must use is based on the total tax liability you reported on Form 941 during a four-quarter *lookback period* as discussed below. Your deposit schedule is not determined by how often you pay your employees or make deposits (see *Application of Monthly and Semiweekly Schedules on the back*).

Similar rules apply for Federal income tax withholding for nonpayroll items such as backup withholding, voluntary withholding on pensions, annuities, and gambling winnings. These rules do not apply to Federal unemployment (FUTA) tax. See the Instructions for Form 940 for information on depositing FUTA tax.

**Electronic deposit requirement:** You must make electronic deposits of all depositary taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS) in 2004 if:

- The total deposits of such taxes in 2002 were more than \$200,000 or
- You were required to use EFTPS in 2003.

If you are required to use EFTPS and fail to do so, you may be subject to a 10% penalty. If you are not required to use EFTPS, you may participate voluntarily. To enroll in or get more information about EFTPS, call 1-800-555-4477 or 1-800-945-8400.

For deposits made by EFTPS to be on time, you must initiate the transaction at least one business day before the date the deposit is due.

If you miss the deadline you can make a same-day payment using the Electronic Tax Application (ETA). Instructions on using ETA are provided in the EFTPS enrollment package. For more information about ETA, call 1-800-382-0045.

**Lookback period.** Your deposit schedule for a calendar year is determined from the total taxes (not reduced by any advance earned income credit payments) reported on your Forms 941 (line 11) in a four-quarter lookback period. The lookback period begins July 1 and ends June 30 as shown in the chart below. If you reported \$50,000 or less of Form 941 taxes for the lookback period, you are a monthly schedule depositor; if you reported more than \$50,000, you are a semiweekly schedule depositor. There are two exception rules--the \$2,500 rule and the \$100,000 next-day deposit rule. The deposit rules and exceptions are discussed below.

### Lookback Period for Calendar Year 2004

Lookback Period				Calendar Year Jan. - Dec.
2002	2003			
July 1 thru Sept. 30	Oct. 1 thru Dec. 31	Jan. 1 thru Mar. 31	Apr. 1 thru June 30	

### Monthly Deposit Schedule

Under the monthly deposit schedule, Form 941 taxes on payments made during a calendar month must be deposited by the 15th day of the following month.

Monthly schedule depositors are not required to file Form 941 on a monthly basis. Do not file Form 941-M, Employer's Monthly Federal Tax Return, unless you are instructed to do so by an IRS representative.

**New employers.** During the first calendar year of your business, your tax liability for each quarter in the lookback period is considered to be zero. Therefore, you are a monthly schedule depositor for the first year of your business (but see the \$100,000 Next-Day Deposit Rule on the back).

### Semiweekly Deposit Schedule

Under the semiweekly deposit schedule, Form 941 taxes on payments made on Wednesday, Thursday, and/or Friday must be deposited by the following Wednesday. Taxes on payments made on Saturday, Sunday, Monday, and/or Tuesday must be deposited by the following Friday.

Deposit Period (Payment Days)	Deposit By
Wednesday, Thursday, and/or Friday	Following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	Following Friday

The end of the quarterly return period always ends a semiweekly deposit period and begins a new one. For example, if the quarter ends on Thursday, then Wednesday and Thursday are one deposit period in the quarter just ended and Friday becomes a separate deposit period in the new quarter. Taxes accumulated on Wednesday and Thursday are subject to one deposit obligation and taxes accumulated on Friday are subject to a separate deposit obligation. Separate Deposits are required because two different quarters are affected.

### Example of Monthly and Semiweekly Schedules

Elm Co. reported Form 941 tax liability as follows:

2003 Lookback Period	2004 Lookback Period
3rd Quarter 2001 - \$12,000	3rd Quarter 2002 - \$12,000
4th Quarter 2001 - \$12,000	4th Quarter 2002 - \$12,000
1st Quarter 2002 - \$12,000	1st Quarter 2003 - \$12,000
2nd Quarter 2002 - \$12,000	2nd Quarter 2003 - \$15,000
<b>\$48,000</b>	<b>\$51,000</b>

Elm Co. is a monthly schedule depositor for 2003 because its tax liability for the four quarters in its lookback period (3rd quarter 2001 through 2nd quarter 2002) was not more than \$50,000. However, for 2004, Elm Co. must follow the semiweekly deposit rule described above because its liability exceeded \$50,000 for the four quarters in its lookback period (3rd quarter 2002 through 2nd quarter 2003).

### Deposits on Banking Days Only

If a deposit is due on a day that is not a banking day, the deposit is considered to have been made timely if it is made by the close of the next banking day. In addition to federal and state bank holidays, Saturdays and Sundays are treated as nonbanking days. For example, if a deposit is due on a Friday and Friday is not a banking day, the deposit will be considered timely if it is made by the following Monday (if that Monday is a banking day).

A special rule is provided for a semiweekly schedule depositor that allows at least 3 banking days to make a deposit. For example, if a semiweekly schedule depositor has Form 941 taxes accumulated for payments made on Friday and the following Monday is not a banking